

8

Plan for the Operation of the New American Merchant Marine

as proposed by

EDWARD N. HURLEY
Chairman United States Shipping Board

WASHINGTON
March 27, 1919

Address delivered by Edward N. Hurley, Chairman United States Shipping Board, before the National Marine League, Commodore Hotel, New York, Thursday evening, March 27, 1919.

IN THIS ADDRESS, MR. HURLEY, FOR THE FIRST TIME, GIVES AN OUTLINE OF HIS PROPOSED PLAN FOR THE OWNERSHIP AND OPERATION OF THE VESSELS BUILT FOR THE GOVERNMENT BY THE UNITED SHIPPING SHIPING BOARD.

The first public address that I delivered as Chairman of the United States Shipping Board was before the National Marine League about one year ago. At that time the world war was at its lowest ebb insofar as the Allies were concerned. The Cambrai battle had been fought and lost by the British; the French had been driven back, and all the indications were that the submarine would continue sinking more ships than the world could produce, which meant that Germany's ruthless submarine warfare would succeed in the effort to starve Great Britain, and that the world itself would face the disaster of a German victory. At no time during the bitter struggle was the outlook more black for the Allies. Then it was that Mr. Lloyd George issued an appeal that came to us clanging like a bell. It was "Ships, ships and more ships"—a strident call that rang out a warning to the world that if the war was to be won we must have the ships and have them quickly.

At the time of my last address before this body, the present Shipping Board, which had been organized little more than half a year before, had by dint of unexampled effort added 81 steel and wood ship-building yards to the small nucleus we possessed at the beginning, and had expanded 18 other yards. In these new and expanded yards we were then building ships on 235 launching ways.

Our Strength in Ship Production.

At the time of the signing of the armistice, we had 341 shipyards practically completed and a total of 1,284 launching ways. This is more than double the number of yards owned by all of the rest of the world combined.

On March 1, of this year, the present United States Shipping Board completed the first year and a half of its existence. During those eighteen months it has added to our merchant marine a total of 619 wood and steel vessels aggregating 3,640,406 deadweight tons.

This is a world record in construction. It needed to be. If Great Britain had gone under, the war would have been ended before we could have gotten into it. It was during those dark days that it was stated in the House of Commons that if submarine losses continued to be sustained without replacement, Great Britain would be in deadly danger within six months, and ruined in nine.

Lord Northcliffe, who knew the seriousness of the situation, and delivered a number of speeches in many States urging the great necessity for ships, was here at that time and called on me frequently to find out what progress we were making. Everyone realized that unless we could build ships faster than the submarines were sinking them the war would be lost, for we could not feed the Allies and our soldiers; nor supply them

with munitions. And, gentlemen, it was not a question of what kind of ships should be built. Any kind would do—concrete, wood, steel, or anything else. And it was not a question of price. It was a question of getting the ships. What has been accomplished in this direction the world knows, and I am not going to dwell on it extensively, but I wish to say that the men I asked to join our organization, like Mr. Schwab, Mr. Rosseter, Mr. Franklin, and Mr. Piez, did great work, and the workmen in the yards accomplished wonders. We built up a hurried organization with the biggest men we could find, and there was no thought about who was going to get the credit. We knew that if we succeeded the country we were serving would get the benefit, and that was incentive enough for any man.

Facts About the Wooden Ships.

We have heard a great deal of criticism about the wooden ships. We all know that for most of the needs of modern ocean trade wooden ships are not as good as steel ships. There is no secret about that, and during the war you did not hear many protests against the building of wooden ships. We now have 115 wooden ships in service. We originally contracted for 703 of these vessels. We have cancelled and suspended 214 contracts. We are not now equipping the hulls that are finished, with engines and boilers. We are finishing off some of them as sailing vessels and some as barges. In general, we are handling the matter along business lines, and in this connection I would like to relate an incident that occurred in England in connection with the British building wood ships.

Mr. Lloyd George insisted that the British should build wood ships in Canada, in Australia, and in England, and a committee of British shipping men called upon him and protested against the Government's spending of money on wood ships, making the claim that they were not as effective as steel ships, etc. After listening attentively to their protests, Mr. Lloyd George made this statement: "Gentlemen, all you say about the wood ships being inferior to steel ships is undoubtedly true, and under ordinary conditions I would be governed entirely by your judgment. But we are now at war, and we cannot win the war without ships, whether they be wood, steel, or any other kind. If these ships will make but two or three trips, build them. We must have ships."

The wooden ships we have will make many trips, and as an emergency ship they have been of great service. Although they are not suited to compete with fast steel liners in the trans-Atlantic trade, they will continue to be of service in trades where they are suitable. The existing world shortage of tonnage is sufficient guaranty of this. Insofar as seaworthiness is concerned, I wish to point out that while we have sustained four total marine losses among our wooden ships, we have sustained five among our steel ships. Of these total losses, one wood ship and one steel ship foundered at sea in heavy weather, so that on the score of *seaworthiness* the honors are even. The other total losses were due to stranding or collision, accidents as likely to happen to a steel ship as to a wooden ship, and which have no bearing whatever on the question of seaworthiness. At any rate, if this war had gone on until 1920 the wood ships might have made it possible to have won the war, and then no one would have criticized the policy of building wooden ships.

As Senator Duncan U. Fletcher, Chairman of the Senate Committee on Commerce, recently told the members of the Merchant Marine Confer-

ence, it was time to build ships out of anything that could be used for ship construction, to build ships out of wood, out of concrete, out of steel, out of anything that could float—out of anything that could carry men overseas and keep them supplied with food and ammunition. It had to be done then. And it had to be done quickly. There was no time for temporizing. I will quote you a paragraph from the Senator's address. He says:

Lives and Money Saved.

"You couldn't wait and say, 'Hold on until things stabilize themselves; hold on until we get to normal conditions. We will then save a few thousand of Uncle Sam's money.' Millions of lives and millions of money were saved by doing the very things that were done; by hurrying up this program and building ships night and day; by letting the world know we had the most stupendous building plants on earth; that we had the men, we had the money, we had the material; that we were going to carry our forces overseas, and with them their supplies; that we had two and a quarter million men over there, two million more in training here, and thirteen million registered and ready to go.

"And when Germany saw that she ran up the white flag."

I want to mention here one thing that I believe had more to do with arousing our country to the necessity of building ships than any other one thing, and that was our campaign for volunteers. While the people of the country knew of the heavy losses of tonnage from submarine sinkings, they did not understand the seriousness of the situation. Our people, not understanding, were not supporting us in the way they should. Their thoughts were on their business and their sons, who were going into the training camps and sailing for Europe.

Feeling that some step should be taken to create a spirit of enthusiasm in the hearts of the mechanics and workers, as well as the people in general, we introduced a plan whereby we were to raise an army of 250,000 patriotic workers to serve in the shipyards. We limited the time for this enrollment to ten days, and I am happy to say at the end of that time 285,000 men throughout the United States had volunteered to leave their homes and families and report for duty at the various shipyards when we notified them to do so. The effect of the enrollment of the workers and the educational campaign was that within nine months we had increased the number of employees in our shipyards from 45,000 to 380,000; had built 65 new shipyards; had the entire country back of our program, and in one day, the Fourth of July, launched 96 ships.

Credit Due Shipyard Workers.

This message was conveyed to General Pershing, and there is no question but that it heartened him and every soldier and imbued them with the knowledge that the American people were back of the ship-building program, and that the ships would be furnished to help them carry on the work of aiding to win the war." I am sure that it also heartened all the Allies. The men deserving of the credit for this great success are the workers in the shipyards, and the enthusiastic people back of them. Every newspaper, every magazine, every moving-picture theatre, and the 4-minute men organization, consisting of 20,000 speakers, were used to impress upon the people the need for the construction of ships with the greatest possible speed.

We have part of our foreign fleet built, while we are constructing more. We shall have authorizations and appropriations to finish if Congress gives us the money we ask, which I feel confident they will. We shall have completed ocean-going ships, not lake or coastwise ships. I am only referring to ocean-going steamers adapted to foreign trade. The world war has broadened our vision so that we think nothing today of distance. We are now thinking not only nationally, but internationally, and we must think internationally if we are going to be a factor in the world's game.

Plan of Ship Operation.

When I last addressed you, it was my privilege to outline to you the American shipbuilding program. Tonight I desire to present for your consideration an American ship-operating program. The operation of a fleet of 16,000,000 tons of ships, 70 per cent of which is owned by the Government, is a problem that should be carefully considered from every angle, and in presenting this plan for your best thought, I feel I should say that the Government, without unnecessary delay, must take a prompt and definite step in giving legislative form to this, or some other policy which will meet with the approval of the country.

While the war was on, the recital of shipbuilding achievement found a quick and ready response from an enthusiastic public. There is less glamour and glory in the work of evolving a policy which will keep these ships under the American flag, and develop our commerce, but this work touches the life of the nation almost as closely as the emergency shipbuilding program.

Upon the development of our foreign commerce will depend in a large measure the prosperity of all the American people, the employment and happiness of labor, and the respect of the nations which compete with us. I am personally opposed to government ownership, except as a last resort. During the war, it was necessary for the government to build a merchant fleet. Private capital never could have accomplished this colossal task, involving the creation of many new shipyards, and the training of a large army of workmen.

Government ownership of this large fleet resulted automatically. If we are to return to private ownership, the transition must be made under such conditions as will completely safeguard the interest of the public. If this fleet, built at government expense, were to be used now merely for the advantage of groups of ship-operators, with sufficient capital to purchase the ships from the Government, I would unhesitatingly advocate the retention of the whole fleet by the Government.

Want No Overcapitalization.

The problem is quite as complex as the railroad problem. Its solution is vital to the welfare and prosperity of the nation. Private ownership unquestionably offers an inducement to American energy and skill, but one of the phases of unrestricted private control, which caused me considerable concern, was the possibility that under such control, ships would be overcapitalized as were many of the railroads. We want the initiative and skill of American ship-operators, but we want no watered stock. We want to avoid the stagnation that sometimes comes from red tape and bureaucracy, but we want no profiteering or exploiting.

We want the new fleet used for the benefit of the people of the United States and not against their larger interest. We want it used for the development of the nation's commerce, and not merely for the development of the private fortunes of ship-operators.

No one will deny that our foreign trade, or the operation of American ships, will decline unless there is a profit for the men who invest their money. But whatever assistance the Government is willing to render, should be reciprocated by those who are benefited. Therefore the nation's shipping policy should certainly provide for such governmental representation as will guarantee a square deal to the public.

I think the whole nation is agreed that there must be no more scandals of overcapitalization in any part of American industrial or commercial life. The ships built by the nation should never be made the basis for any stock-jobbing scheme. I think the nation will see to it that they are not so used.

Protection for Small Operator.

If there is to be any monopoly, moreover, it must be a government monopoly. If there is to be a private initiative, the field must be kept open to the small operator, whose opportunity to compete with the large operator must be protected by the Government. The mere possession of large capital must not give the larger operator an opportunity to drive the smaller man out of business. In the plan I am ready to submit for the best thought and impartial discussion of the country, I believe you will find that the fundamental American theory of encouraging competition on fair terms is amply safeguarded.

When we recognize the precautions that must be taken to safeguard the interest of the public, there is no further need for hesitation in meeting a large problem in a large way.

It is my hope that the people of America will view the problem broadly. The men who earn their livelihood from the operation of ships naturally will feel that they are chiefly concerned. The men who build ships also have a very large interest in it. Our first thought, however, must be of the effect of any inadequate solution upon the hundred million people who composed the United States. Their interest must come first.

In my judgment, any policy which does not encourage the building and the extensive operation of ships under the American flag will not satisfy the American people. I believe that a sound policy can be put into the form of legislation and that it will then form a permanent foundation on which further improvements, as the need for them appears, can be erected.

Ships Now Owned by Government.

The United States Government now owns 555 ocean-going steel cargo ships aggregating 3,385,475 deadweight tons. In addition it has under contract 1,336 similar vessels of 9,275,006 deadweight tons. If our present program be carried out, there will be under the American flag next year 16,732,700 deadweight tons of ocean-going steel cargo and passenger ships. This fleet will be the equivalent of almost half the merchant tonnage which plies the seas today under the flags of all nations combined. The Government will own about 70 per cent of it.

The economic importance of this great fleet would be difficult to overestimate. Upon its successful operation under a sound financial and administrative plan by vigilant, courageous men who have the interest of American industry and commerce at heart, depends more than upon any other factor the future development of our overseas trades, and of the domestic industries which feed it. Therefore, while the clouds of war disperse and the conditions of the new era begin to unfold, I desire to invite your attention to a digest of the various plans which have been suggested, and to submit to you the plan which seems to me for the best interest of the whole country, for the disposition of the Government's ships, and for the development of the American merchant marine.

Different Plans Suggested.

The plans which have been considered range between Government ownership and operation on the one hand, and unregulated private ownership and operation on the other. In general, they fall into one or more of the following classifications:

1. GOVERNMENT OWNERSHIP AND OPERATION:

Under this plan, title to all vessels now owned by the Government would remain in the Government, and their operation would be conducted by Government employees and agents. The adoption of this plan would necessitate the permanent establishment of a Government operating force with branch offices and agencies in every port of the world. Cargoes and passengers would be booked by the Government representative, and the accounts would be cast up at the central operating offices in Washington.

2. GOVERNMENT OWNERSHIP AND OPERATION FOR THE BENEFIT OF THE GOVERNMENT THROUGH THE MEDIUM OF A PRIVATE CORPORATION: *This, in effect, does not differ from operation directly by the Government, except that under such a plan Government operation might be more easily administered, and some of the inertia inherent in governmental undertakings might be overcome.*

3. GOVERNMENT OWNERSHIP AND PRIVATE OPERATION FOR GOVERNMENT ACCOUNT: *Under this plan the Government would retain its ownership, but private companies would be employed as agents on a commission basis to operate the vessels for Government account.*

4. GOVERNMENT OWNERSHIP AND PRIVATE OPERATION FOR PRIVATE ACCOUNT: *This would mean the retention of Government ownership under a leasing system by which the vessels would be leased or chartered to private steamship companies. After paying the charter hire to the Government, the operator would keep the rest of the earnings.*

5. OWNERSHIP BY A SINGLE PRIVATE CORPORATION: *Under this plan title to all vessels would be placed in one large private corporation, the stock of which would be sold to the public, the Government, if it chose, guaranteeing a fixed return on the stock. This would entail the centralization of the ownership and operation of the ships now owned by the Government in one large*

unit. If the Government guaranteed a fixed return on the stock, the result would be that the machinery for the ownership and operation of the fleet would be practically identical with that suggested in plan No. "2," but with the modification that the Government would carry any losses which might be incurred without receiving the benefit of any profits which might be earned.

6. PRIVATE OWNERSHIP AND OPERATION: Lastly, the vessels can be sold to private companies, to be operated by them entirely for their own account, the Government thus relinquishing all interest and control.

Arguments in Favor of Government Ownership.

The argument in favor of Government ownership and operation is that this great fleet, which has been created with taxpayers' money, should be used for national purposes; that the ships have not been built to earn profits as ships, but to become the servants of the nation which built them. It is urged that they should be used to develop the commerce of the nation as a whole, and that they should, if necessary, be placed in trade routes which may temporarily prove unprofitable, but ultimately become of great value to the nation as an instrument through which its foreign commerce can be increased.

Private companies would not be disposed to serve the national interest in this way. The life of a ship is comparatively short. Its owner must make it pay today. He cannot be expected to take a loss today in order to build up a commerce which will become a source of profit only after the ship now engaged in that commerce has been scrapped. The great need of this country is that new trade routes should be established, and it is urged that Government ownership and operation should be retained as a guaranty that all ships will serve the nation as a whole and not a limited class of private shipowners.

A further argument in favor of public ownership and operation is that in case of a national emergency such as has just been experienced, the Government would be in a position immediately to convert its merchant fleet into a military weapon.

Arguments in Favor of Private Ownership.

The chief argument in favor of private ownership and operation is that a successful merchant marine depends not so much on ships, or money, or Government aid, as it does on the existence of a large class of alert, resourceful and energetic men engaged in the shipping business. Mere mechanical efficiency of ship and shore plant, added to sound financial backing, is not enough. The man who enters the shipping business enters a battle against the wits of the world. He must have a genius for shipping. Fortunately the men now engaged in the shipping business in the United States are of that character. But there are not enough of them. We need many more. And it is clear that the number of such men can be greatly increased only under conditions of private initiative. The shipping business is a business of infinite detail and infinite technique; yet it calls for great courage and wide-ranging imagination. The formalities necessarily surrounding Government operations are not suited to the successful conduct of a shipping venture, requiring quick

decision, sudden reversals of policy, and the assuming of great hazards. The successful shipping man in an emergency consults no book of rules. He consults only his wits. So, it is contended, that only under private operation may we expect a further increase in the number of small, independent, skillful ship-operators which we shall need more and more as the American merchant marine expands its activity upon the seas.

Furthermore, the establishment of a merchant marine under the American flag must take into account the difficulty of securing return cargoes. If ships must be brought back in ballast, the business cannot be profitable. In order that a round trip may be made without a considerable portion of it being in ballast, it may be necessary to engage in a triangular or polygon voyage. In order profitably to carry a cargo from New York to Australia, it may be necessary also to carry a cargo from Australia to Japan; thence a cargo to the Cape Verde Islands, with the short return trip in ballast to New York. Such operations require a degree of special negotiation and freedom from control to which Government operations are entirely unsuited. They cannot be standardized. No rule can be laid down which a Government employee could follow, for the conditions are constantly shifting, and in this tramp business the competition of the whole world must be met, facility with facility, and rate with rate.

Recommendations.

A careful consideration of these arguments has led me to the conclusion that the ships should be sold to and operated by American citizens under no restrictions other than the terms of the bill of sale and the fixation of maximum freight rates, either as provided in Section 18 of the Act approved September 7, 1916, or as may be agreed by the Government and the operator in specific instances.

The ships should be sold at a price which fairly reflects the current world market for similar tonnage.

Twenty-five per cent of the purchase price of each ship should be paid down, the remainder falling due and payable in graded annual instalments over a period not exceeding ten years. The Government should take and hold a mortgage for the unpaid balance, charging interest thereon at the customary commercial rate of five per cent. One-fifth of this interests, representing the difference between the customary Government interest of four per cent and the customary commercial rate, should be paid into a Merchant Marine Development Fund to be described hereafter.

The purchaser should be required to agree to insure and keep insured with an American Marine Insurance Company, his equity in the vessel, and because the American marine insurance market has not at present sufficient resources to underwrite all the vessels the Government has to sell, the Government should carry in its own fund, as at present, but for purchaser's account, hull and machinery insurance covering that part of the vessel for which payment has not been made. Our experience in operation shows that the Government can carry this insurance for at least one per cent less than the open market rate. However, it is proposed that the open market rate be charged, and that the difference be paid into the Merchant Marine Development Fund.

It is understood that no transfer of a vessel to foreign registry should be permitted without express permission of the Government.

Each purchaser who wishes to operate in the foreign trade should be obliged to incorporate under Federal charter, the necessary legislation for which should be passed by Congress without delay. Such a charter should provide that no stock shall be issued in excess of the money value actually paid in on vessel property, and that no stock can be issued or transferred to an alien.

It should also provide that one member of the Board of Directors for each company shall be named by the Government. This director should draw no salary, either from the steamship corporation or from the Government. He should receive only the customary director's fee for each meeting he attends.

The same legislation should provide for periodical meetings of these Government-named directors, in the City of Washington, where they will constitute an official body which will confer with and advise the Shipping Board, or other designated Government agency, upon problems arising in, or questions affecting the welfare of, the American Merchant Marine, including the administration of the Merchant Marine Development Fund.

This fund, drawn from the sources previously indicated, should be used to relieve such financial difficulties as may be encountered in the development of an adequate and well-balanced American Merchant Marine. For instance:

It is foreseen that a number of trade routes important to the immediate or future welfare of American commerce must be established and developed. Some of these routes may not yield steamship operating profits until their existence shall have attracted an increased volume or better balance of trade. Revenue derived from the carriage of mail, and possible fees for the training of seamen and cadet-officers, may partly compensate losses incurred on these routes. Still, in cases where the Government sells a ship upon condition that it be operated in a route which may not prove profitable at once, it will be necessary to provide for the payment of defaulted interest from the Merchant Marine Development Fund, in the discretion of the Shipping Board or other Government agency, upon recommendation of the Board of Government Directors, until such time as the route may begin to yield profit. When the ships in the route earn their annual interest rate and a profit, one-half the profit earned each year should be paid into the Merchant Marine Development Fund until all moneys drawn from the fund on account of the vessel in question shall have been replaced. The other half should go annually to the steamship stockholders.

Such vessels cruising in routes which fail to prove susceptible of profitable development and which do not serve any purpose of the Government of the United States, may be transferred by the Government to other routes. However, should the Government become convinced that any vessel has failed to make expenses solely or chiefly because of incapable management, it may foreclose its mortgage on that vessel.

On the basis of one billion dollars' worth of ships, the Merchant Marine Development Fund would be fourteen million dollars. This amount, investigation convinces me, would be more than sufficient to care for all deficiencies likely to develop during this period.

Until sold under the terms just stated, all vessels should remain the property of, and should be operated by, the Government of the United States.

Control of Rates.

Taking up these points seriatum, I wish to enlarge and comment upon them as follows:

In order to make sure that the American Merchant Marine will be operated with due regard for the interests of American industry and commerce, it is necessary to exercise control over the maximum freight rates which may be charged in regular trade routes.

Sections 16 and 17 of the Act approved September 7, 1916, provide remedies for unjust discrimination by American shipowners against any American shipper or port, and they also forbid the collection by common carriers in foreign commerce of any rate unjustly prejudicial to American exporters as compared with foreign exporters. Section 18 of the same act authorizes the fixation of maximum freight rates charged by common carriers by water in interstate commerce.

There remains to be provided means for preventing the impartial imposition of unjustly high rates upon all commerce moving into or out of the United States. This is manifestly beyond the power of legislation at the moment, and it is proposed to secure such control by agreement inserted in the bill of sale under which the ships are released, and by making such control a condition of participating in the benefit of the Merchant Marine Development Fund.

The Selling Price of the Ships.

It has been recommended that the ships be sold at prices which fairly reflect the world market for similar tonnage. If a higher price were fixed the purchaser would not be able to compete with the ships of other nations carried at a lower rate. If a lower price were fixed Government property would be sacrificed, and at the same time a blow would be struck the American shipbuilding industry by the low value at which ships in operation would be carried on the operator's books. The sale of the vessels at the world market price would be fair to operator and builder alike. Also, it would automatically fix the write-off which must be made on account of the excessive and necessary war-cost of the ships.

Terms of Sale.

A substantial payment should be required upon the delivery of the ship. The best interests of the Government, the operator, and the American Merchant Marine demand that this initial payment should be at least 25 per cent of the price of the vessel. Subsequent payment should be made as follows:

Beginning of the first	year	(initial payment)	25%
" " " second	"		10%
" " " third	"		9%
" " " fourth	"		8%
" " " fifth	"		8%
" " " sixth	"		8%
" " " seventh	"		8%
" " " eighth	"		8%
" " " ninth	"		8%
" " " tenth	"		8%

This schedule provides for the payment of 60 per cent of the purchase price in the first five years, and 40 per cent during the last five years. Such payments would establish the purchasing companies on a firm basis, and would serve to discourage any purchaser who might contemplate reaping large profits during the first two or three years, with a mental reservation to retire as soon as present high freight rates decline and profits cease to be abnormal. At the same time these terms are not so severe as to call for any financial assistance beyond that which usually is accorded reasonably well-managed commercial enterprises in this country.

It is important that all ships be sold on these terms, and on no others. If we were to deviate from this principle we would place the big, powerful and experienced operator in a position of such great advantages that new blood and brains hardly would dare venture into the business. The American Merchant Marine needs enterprising new companies, financially able to begin operations only upon a small scale, but determined to grow to great size and prosperity by dint of perseverance and grit. This is the way new industries on shore have become mammoth in less than a generation, and it is largely upon the application of the same genius and methods in this new field that we may safely rely to enable our inexperienced people to drive their way to success upon the sea.

Insurance.

Simultaneously with the purchase of a vessel, the purchaser should be required to provide hull and machinery insurance for his equity with an American Marine Insurance Company. As additional payments are made, the equity they represent should be insured in the same manner, until a hundred per cent of the hull and machinery insurance has passed into the hands of private American insurance companies. This arrangement would achieve the double purpose of relieving the Government of the insurance risks which the exigencies of war have compelled it to assume, and of making possible the development of an American marine insurance market capable of carrying insurance on all the vessels under the American flag. The history of our Merchant Marine shows conclusively that it is essential for American shipowners to insure their ships with American marine insurance companies. An American marine insurance market is as vital a necessity to an American Merchant Marine as is American capital to the steamship companies which constitute it.

That part of the equity in each ship which is covered by the Government's mortgage should continue to be insured in the Government's funds, as at present. As the payments progress, however, this equity will decrease, until at the end of ten years, the Government will have no more

need of carrying any insurance. Additional legislation will be needed to enable the Government to carry this insurance beyond the emergency period now authorized by law.

The Merchant Marine Development Fund.

It has been indicated that this plan contemplates the setting aside of certain moneys representing the difference between the customary commercial charges for interest and insurance and the rates at which the Government, in virtue of its peculiar position, is enabled to charge. In the matter of interest, it has been shown that this difference would be 1 per cent, which represents the advantage over the customary commercial rate of 5 per cent which the Government can concede without loss in view of the fact that 4 per cent is the rate which approximates the interest the Government is accustomed to pay for money it borrows. In the matter of insurance, the experience of the war period indicates that the Government can safely carry vessel insurance at more than 1 per cent below the commercial market rate.

As heretofore stated, the money derived from these two sources will amount to \$14,000,000 the first year. Expert shipping men have carefully computed that this sum will be double the amount needed to meet any contingency likely to arise. This money should be paid into the hands of the Shipping Board, or other designated Government agency, as trustee, to be used as may be necessary for the development of the American Merchant Marine.

A good idea of the resources which this plan provides for financing the development of the American Merchant Marine can be gathered from the following table. It is assumed that the money will be placed in an approved depository where it will draw interest at 2 per cent, compounded semi-annually. Remembering that any disbursements which may be made during the first few years will be returned during the last few years, it will be seen that the size of the fund for the ten-year period will be \$83,533,170.70.

TOTAL ACCRUALS TO MERCHANT MARINE DEVELOPMENT FUND DURING TEN-YEAR PERIOD.

<i>Period</i>	<i>Deposits</i>	<i>Interest</i>	<i>Total</i>
1st Year	\$7,500,000	\$150,750.00	\$7,650,750.00
2d "	14,000,000	435,180.08	22,085,930.08
3d "	12,100,000	687,137.19	34,873,067.27
4th "	10,400,000	909,988.64	46,183,055.91
5th "	8,800,000	1,105,159.42	56,088,215.33
6th "	7,200,000	1,272,093.12	64,560,308.45
7th "	5,600,000	1,410,222.20	71,570,530.65
8th "	4,000,000	1,518,967.67	77,089,498.32
9th "	2,400,000	1,597,738.91	81,087,237.23
10th "	800,000	1,645,933.47	83,533,170.70
Total	\$72,800,000	\$10,733,170.70	

The purposes for which this fund may be drawn upon and the conditions under which operators will be entitled to aid have already been

indicated. It is impossible at this time to go into greater detail, except to say that in view of the peculiar character of the ship-operating business and the extraordinary trade conditions likely to prevail during the next five years, the trustee should be allowed to use considerable discretion in the administration of the Merchant Marine Development Fund. Also, it is important to point out that, although new accretions to the fund will diminish year by year, the amounts returned to it by the companies which have weathered the stormy periods of their careers can be relied upon to keep it practically intact. The only losses which need be considered are such as may arise through foreclosures executed against companies which, despite the aid of the fund, have failed to earn their charges.

It cannot have escaped notice that the assistance I propose to render with the Merchant Marine Development Fund takes the place of the Government backing for the development of new trade routes in the national interest, which is the strongest argument brought forward by the advocates of a Government-owned and operated Merchant Marine. Yet not one cent of this fund is drawn from the public treasury. Instead, the money represents profits forborne by the Government, which is not entitled to earn profit while engaged in developing the industries of its people. Neither can it be said that the money will be taken from the steamship business, for in no case will the operators be charged more than the current market rate for similar service, whether the service rendered be insurance or credit.

The Government Directors.

The functions of the Government Directors mentioned in connection with the Federal charter under which our steamship companies should operate will be of utmost importance. The provision which prohibits their drawing a salary automatically insures that no great number of them will be men whose interests are centered in the steamship business. At the same time, the provision that the Government shall name them insures that they will be men of standing, sympathetic with American interests, and alive to the public-service character of the steamship business. Upon these men the American Merchant Marine will rely to bring about that co-ordination of effort which will insure healthy conditions within each corporation, clean business methods, and, in short, will put each operating unit on its mettle, both in its own interest and in the interest of the American Merchant Marine as a co-operative whole.

These Government Directors, accompanied by members of the operating companies' boards, should meet in Washington quarterly, or at other stated periods. They should form a permanent organization and establish permanent offices. These offices should be the point of contact between the operating companies and the Shipping Board, or other designated Government agency. They should be the clearing house for the operators' periodical statements, and they should be in charge of a secretary who is paid a salary from the Merchant Marine Development Fund.

Immediately upon convening in Washington the Associated Directors should appoint from among their membership a sufficient number of committees to handle all the important problems of steamship operation. There should be a committee on trade routes, a committee on freight rates, a committee on finance, and a committee on organization. These

committees should be subordinate to an Executive Council composed of five members who should remain in session after the general meeting of all the Associated Directors, in order to digest the proceedings and recommendations of the meeting and present them in proper form to the Shipping Board, or other designated Government agency.

After consultation with, and upon the recommendation of, the Association of Directors, the Shipping Board, or other designated Government agency, would—

(a) Determine what assistance, if any, should be given from the Merchant Marine Development Fund.

(b) Establish new trade routes, or modify or discontinue old ones.

(c) Determine whether or not a defaulting mortgage should be foreclosed.

(d) Take any steps, or exert any influence, within its power to improve the American Merchant Marine.

New Legislation Required.

In order to make this plan effective it will be necessary to ask Congress for three statutes. One of these statutes should authorize the incorporation of steamship companies under Federal charter along the lines I have indicated. Another statute should extend the emergency power to carry hull and machinery insurance in the Shipping Board's fund so that this function may continue to be performed by some designated Government agency so long as the Government may continue to hold an equity in any of the vessels it now owns or has under contract. The third statute, of which I shall speak at greater length, should revise the present status of vessel mortgages so as to make them attractive to bankers and other investors.

The security of a mortgage may be imperiled by loss or damage to a vessel, or by the attachment of superior liens. Such liens can generally be classed as those arising from debts and from liabilities. The most important ones, resulting from debts, arise from the furnishing of repairs, supplies, or other necessities in the maintenance and operation of a vessel, including pilotages, towages, port charges, crews' wages, and other contractual obligations. Liabilities creating liens result principally from collisions, strandings, salvages, general averages, cargo damages, and personal injuries. Practically all such liabilities can be insured against by the standard form of marine insurance policies, and by protection and indemnity insurance.

If, therefore, the mortgage contains covenants and agreements to compel the mortgagor to insure against such liabilities, as well as loss from fire and marine peril, the security of the mortgage will only be jeopardized by liens arising from contractual obligations. It is my proposal to obtain protection against the latter by amending the existing law so as to assure to anyone furnishing such repairs, supplies, other necessities, etc., the opportunity, by exercising due diligence, of obtaining full information by the existence of the mortgage, and then to provide that the lien of the mortgage shall be superior to liens for repairs, supplies, and other necessities (contractual obligations), etc.

By this co-ordination of mortgage, covenants, and agreements and the statutes, reasonable and adequate protection can be secured to the mortgage. I would provide for such notice by requiring that all mortgages

be recorded with the Collector of Customs where the mortgaged vessel is registered or enrolled and that the ship's registry or enrollment have endorsed upon its face the names of the mortgagor and mortgagee, the place of record, and the amount secured thereby.

Such record and endorsement would be made a condition precedent to the validity of the mortgage as against all the world save the mortgagor and mortgagee. If then the owner, master or agent of any vessel apply for the furnishing of repairs, supplies and other necessities, or for the rendition of contractual services (except for the services of seamen) upon the mortgage of the vessel, the proposed creditor could immediately advise himself of the existence of any mortgage by examining the ship's papers, and could by telegraphic means communicate with the Collector of Customs of the home port of the vessel and ascertain the amount remaining unpaid upon the mortgage. With this information the proposed creditor could determine for himself the advisability of extending the requested credit. If he did so and a foreclosure of the mortgage upon the vessel should destroy his security, he would be without grounds of complaint against the superiority of the mortgage, because he would have furnished the credit with full knowledge of the superior lien of the mortgage.

I would also vest in the United States District Court exclusive jurisdiction over the foreclosure of the mortgages, instead of leaving the mortgagees to their present remedy in the State court. This would make the practice uniform and therefore greatly enhance the security value of the mortgage by providing a speedy and simple method of foreclosure. It would also avoid the inconsistencies, delays and uncertainties of State laws and procedure which now exist. By and large, the enactment of a statute such as I have outlined would make of a mortgage on American vessel property a security fully as good as, and in some respects better than, a mortgage on vessel property sailing under any other flag on earth.

The demand for tonnage at the present time is so great that every available ship, including our wooden ships, is in service. The feeling among shipping men is that this great demand will continue for at least two or three years. On account of the different variety of service for which wood ships and steel ships are especially suitable, I have not included the wood ships in my plan for the disposition of the steel ships.

Conclusion.

In conclusion, I have only to say that this plan is based upon profound convictions formed after a close personal study of conditions at home and in Europe, and after careful consideration of the best information I could obtain about what is going on in other quarters of the globe. I have not permitted myself to be guided by the example or methods of other nations, except insofar as it has seemed necessary to take cognizance of the results of their acts and methods as conditions which the American Merchant Marine will have to face upon the waters of the five oceans and seven seas. My one thought has been to work out a plan which would be American in conception and adapted to the ideals, genius, temperament and business methods of the American people—a plan sufficiently elastic to serve the enormous extension of overseas trade we have in prospect without having to undergo disorganizing changes. I have just laid the product of my labor before you.